



**EXHIBITS
FOR
E-01345A-03-0437**

BARCODE 0000020463

APS-R 16-22, APS-SD 1-4, ASP-SR 1-3, AUIA,
AUIA-S, AZCA 1-5 & 7-10 (6 NOT USED)
CNE/SEL 1-5, DOME VALLEY, FEA 1 & 2,
GLEASON 1, IBEW 1, KROGER 1,
MESQUITE 1 & 2, MUNDELL 1



**CONTINUED
PLEASE SEE BARCODES AS REFERENCED BELOW
FOR REMAINDER OF EXHIBITS**

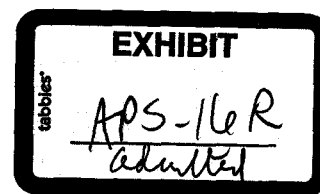
0000020460: ACPA 1-4, AECC 1, 2, AECC/PD/FEA/K 1-3, APS 1-4

0000020461: APS 5-27, APS 33-39

0000020462: APS-R 1-15

0000020464: PPL 1 & 2, RUCO 1-15, SOUTHWESTERN POWER 1 & 2
STAFF 1-9

0000020465: STAFF 10-32, SWEEP 1-4, WRA 1-4



**BEFORE THE
ARIZONA CORPORATION COMMISSION**

**REBUTTAL TESTIMONY OF
JOHN F. WIEDMAYER**

**ON BEHALF OF ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-03-0437**

March 30, 2004

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Line
No.

1

I. INTRODUCTION

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. John F. Wiedmayer. My business address is 1010 Adams Avenue, Audubon,
4 Pennsylvania 19403.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am Supervisor of Depreciation Studies for the Valuation and Rate Division of
7 Gannett Fleming Inc.

8 **Q. PLEASE DESCRIBE THE VALUATION AND RATE DIVISION OF GANNETT**
9 **FLEMING, INC.**

10 A. The Gannett Fleming affiliated companies employ over 1,900 people in over 40
11 regional offices throughout the United States and Canada. The Valuation and
12 Rate Division of Gannett Fleming Inc. ("Gannett Fleming") provides consulting
13 services primarily to public utilities and railroads. Gannett Fleming and its
14 predecessors have provided consulting services to utility clients since 1915. The

1 firm has a long history of client services in ratemaking proceedings
2 encompassing valuation; depreciation studies; revenue requirement; cost
3 allocation and rate design studies; rate of return studies; analyses of accounting
4 systems; and acquisition and feasibility studies.

5 **Q. PLEASE STATE BRIEFLY YOUR EDUCATIONAL BACKGROUND AND**
6 **EMPLOYMENT EXPERIENCE.**

7 A. I received a Bachelor of Arts degree in Engineering from Lafayette College and a
8 Masters in Business Administration from Pennsylvania State University. After my
9 graduation from Lafayette College in June 1986, I was employed by Gannett
10 Fleming as a Depreciation Engineer. The scope of my depreciation activities has
11 included data assembly, statistical service life analyses utilizing the retirement
12 rate and simulated plant record methods, field surveys, estimation of service life
13 and salvage, calculation of annual and accrued depreciation and the preparation
14 of reports presenting the results of the studies. In 1996, I attained my current
15 position with Gannett Fleming. Since 2001, I have testified in support of the
16 studies conducted under my direct supervision. I have testified on depreciation
17 before the Kentucky Public Service Commission, the Board of Commissioners of
18 Public Utilities of Newfoundland and Labrador, and the Nova Scotia Utility and
19 Review Board. A more detailed Statement of Qualifications is attached as
20 Appendix A.

21 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES?**

22 A. Yes, I am a member of the National and Pennsylvania Societies of Professional
23 Engineers and the Society of Depreciation Professionals ("SDP"), an

1 international organization. In 2003, I was elected as Vice President of the
2 Society of Depreciation Professionals. I am also recognized by the SDP as a
3 Certified Depreciation Professional.

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II. SUMMARY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony responds to part of the Direct Testimony of Arizona Corporation Commission ("Commission") Staff witness Michael J. Majoros Jr. Specifically, I support the depreciation studies that were conducted under my direction and supervision for Arizona Public Service Company ("APS" or the "Company") and for Pinnacle West Energy Corporation ("PWEC"). Because those studies were both correctly prepared and reasonable, I recommend that the Commission reject the unreasonably low depreciation rates proposed by Mr. Majoros and adopt the depreciation rates that I have determined in the depreciation studies.

Q. WHAT IS THE BASIS FOR YOUR CONCLUSIONS REGARDING THE DEPRECIATION RATES PROPOSED BY MR. MAJOROS?

A. My conclusion that the significant reduction in depreciation rates proposed by Mr. Majoros should be rejected is based on a thorough review of his Direct Testimony, schedules, workpapers and data request responses. Mr. Majoros has proposed a radical departure from the traditional approach of recognizing net salvage in the depreciation rate formula, which is discussed in the rebuttal testimony of Dr. Ronald E. White, determined average service lives by relying almost entirely on analyses of historical data and ignoring other relevant information, and has estimated life spans for new gas-fired power plants that are longer than any other in North America.

1 The service lives determined by Mr. Majoros are not the result of an
2 application of informed judgment incorporating consideration of all appropriate
3 factors. Rather, in most cases they are simply the result of his acceptance of
4 curve fitting performed by a computer program. Mr. Majoros' approach conflicts
5 with the recommendations of authoritative texts¹ that indicate statistical analyses
6 are only one of the factors to be considered in setting depreciation rates.

7 The life spans for the PWECC power plants proposed by Mr. Majoros do not
8 reflect a reasonable consideration of future events and economic circumstances
9 and assume that significant future investments will be made on refurbishment,
10 component replacement, and life extension for the PWECC power plants. As it is,
11 Mr. Majoros' proposed life spans for the PWECC power plants are the longest life
12 spans for new gas-fired simple cycle and combined cycle power plants that I've
13 encountered. A reasonable life span estimate for the PWECC power plants
14 should be based on informed judgment that incorporates both relevant historical
15 experience but also one that considers future forces of retirement. Mr. Majoros'
16 proposal is simply based on the life span estimates used for APS' existing power
17 plants that are already 30 years old and incorrectly assumes that the life spans
18 for existing APS plants are appropriate for the new PWECC power plants. Mr.
19 Majoros' life span proposal for the PWECC power plants only considers the
20 historical evidence of APS without giving due weight to future forces of
21 retirement.

¹ Wolf, Frank K. and W. Chester Fitch, Depreciation Systems. Iowa State University Press. 1994. Public Utility Depreciation Practices, National Association of Regulatory Utility Commissioners (NARUC), p. 128.1996.

1 **Q. HAVE YOU PREPARED A REPORT SETTING FORTH THE RESULTS OF**
2 **YOUR DEPRECIATION STUDY?**

3 A. Yes, I have. The Depreciation Study and the Addendum to the Depreciation Study
4 were presented in the Direct Testimony of Laura L. Rockenberger. The
5 depreciation study reports are titled "Depreciation Study – Recommended
6 Remaining Life Depreciation Accrual Rates as of December 31, 2002" and
7 "Addendum to Depreciation Study Prepared for Pinnacle West Energy Corporation
8 - Recommended Remaining Life Depreciation Accrual Rates as of December 31,
9 2002."

10 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND THEIR BASES.**

11 A. I recommend that the Commission approve the annual depreciation accrual rates
12 presented in Schedule 1 of both reports. I am also recommending that the
13 Commission approve amortization accounting for certain General Plant accounts
14 and a 3-year amortization of the variance between the calculated accrued
15 depreciation and the book accumulated depreciation for the seven General Plant
16 accounts subject to amortization accounting. The amortization rates and reserve
17 variance amortizations that I have determined are presented in Schedule 1 of the
18 depreciation study.

19 The annual depreciation accrual rates and the reserve variance
20 amortization that I am recommending are based on the traditional straight line
21 method, average service life procedure, remaining life technique and estimates
22 of survivor curves and net salvage percents. These estimates are based on
23 informed judgment that incorporates statistical analyses of historical retirement

1 data, field reviews of the property, discussions with management regarding the
2 outlook for plant, and a review of the estimates made for other electric utilities.
3 Further, my estimated survivor characteristics for Production Plant incorporate
4 estimated dates of final retirement that are consistent with industry experience
5 and the outlook of APS management.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?**

7 A. No. However, the depreciation studies for Arizona Public Service Company and
8 PWEC that Mr. Majoros criticizes were conducted by Gannett Fleming under my
9 direct supervision. The principal results of the depreciation studies were the
10 estimation of survivor curves and net salvage percents by plant account and the
11 resultant remaining life depreciation accrual rates. The depreciation studies were
12 originally presented in the direct testimony of Laura Rockenberger².

13 **Q. COULD YOU SUMMARIZE YOUR REBUTTAL TO MR. MAJOROS'**
14 **TESTIMONY?**

15 A. Yes. In general, Mr. Majoros proposes an extreme, non-conventional depreciation
16 methodology that he has advocated in other rate proceedings to achieve dramatic
17 proposed reductions to the Company's existing, Commission-approved
18 depreciation rates. Depreciation expense is how regulated utilities recover
19 investment in utility plant (the "return of" investment), so reducing the overall
20 depreciation rate like Mr. Majoros recommends reduces depreciation expense and
21 lowers the revenue requirement in the short term. One component of his overall
22 reduction is accomplished by proposing the use of a "net salvage allowance" (his

² Attachment LLR-4.

1 term) which essentially treats net salvage as a normalized expense. Mr. Majoros'
2 approach is in contrast to the widely-accepted, traditional ratemaking treatment
3 afforded net salvage which is discussed in depth in Dr. Ronald E. White's rebuttal
4 testimony. The other core piece of Mr. Majoros' extreme recommendation is to
5 propose unreasonable service life estimates for certain significant plant accounts.
6 It is this portion of Mr. Majoros' recommendation, as well as his unreasonably long
7 service lives of the PWECC assets, that is addressed in my rebuttal testimony.

8 Specifically, Mr. Majoros is recommending that the Commission adopt his
9 service life estimates for 10 Transmission, Distribution and General Plant
10 accounts that are based on his selection of the statistically best fit survivor curve.
11 The terms "statistically best fit" and "mathematically best fit" have the same
12 meaning and are used interchangeably throughout this testimony. For all 10
13 accounts, Mr. Majoros proposes longer average service lives than I have
14 recommended. The survivor curves proposed by Mr. Majoros result from flawed
15 life analyses that place too much importance on statistically insignificant data. The
16 life estimation process requires the application of informed judgment and is far
17 more than a mechanical curve-fitting exercise. Mr. Majoros, however, selects
18 survivor curves based on strict adherence to a computer program. This is not an
19 accepted practice when conducting a service life analysis as I will discuss later.

20 Also, Mr. Majoros proposes life spans ranging from 45 to 55 years for the
21 three new PWECC power plants, while I have proposed life spans ranging from 30
22 to 32 years. He reached this conclusion by proposing that APS' power plant lives
23 be transposed to the new PWECC power plants without any consideration of future

1 operating conditions, and wholly ignoring how upgrades and retrofitted equipment
2 to APS' existing power plants have increased their life spans. As with the APS
3 plant accounts, Mr. Majoros' analysis fails to meet acceptable standards for a
4 depreciation study.

5 The Company's proposal in the original rate application results in a \$7.6
6 million reduction to depreciation expense when compared with currently approved
7 depreciation rates³. Mr. Majoros' proposal results in a \$44.3 million reduction to
8 depreciation expense for APS (a 17 percent reduction) in comparison with the
9 Company's proposal and a \$13.7 million reduction to depreciation expense for the
10 PWEC units in comparison with the rates proposed in the application.

11 **Q. HAVE YOU PREPARED ANY EXHIBITS TO ILLUSTRATE THE CONCLUSIONS**
12 **YOU HAVE REACHED IN YOUR REBUTTAL TESTIMONY?**

13 A. Yes. Schedule JFW-1RB presents a comparison of current Commission-approved
14 depreciation parameters (including survivor curves, net salvage percents, and
15 depreciation accrual rates and amounts) and the proposed parameters and
16 depreciation accrual rates and amounts set forth in the depreciation study.
17 Schedule JFW-2RB sets forth a comparison of APS' proposed depreciation
18 parameters and Mr. Majoros' proposed parameters. Schedule JFW-3RB presents
19 a comparison of the functional plant depreciation rates proposed by APS and Mr.
20 Majoros for Transmission, Distribution and General Plant versus the functional
21 depreciation rates used by other electric companies operating in the Southwest.

³ See Schedule JFW-1RB